

The AI Drop | #1: Of Bubbles and Busts - A Conversation on the Future of AI with Boris Feldman Transcript

Anna Gressel (00:01):

Hey everyone. This is Anna Gressel and you're listening to The AI Drop. Your briefing on how AI is reshaping the future of business law and industry. We bring you fresh drops each week so you never miss a beat. Welcome to the podcast. Boris, hi. I'm so thrilled that you're joining us for our podcast today. I just want to say to the audience, when I was thinking about launching this at Freshfields, my number one get for my first episode was Mr. Boris Feldman. I can't imagine a more fun guest to kind of kick off the conversation on where we are with AI. So I'm just thrilled you're here with us. Thank you.

Boris Feldman (00:40):

Everybody at the firm is thrilled to have you at Freshfields. Your energy could power five data centers.

Anna Gressel (00:48):

Wow. I should really be charging differently for my time if that's how valuable I am, but that is so nice. I really appreciate you saying that. Boris, I know you. Like I said, I'm so excited, but I want you to introduce yourself to the audience a little bit. I mean, you're like a completely storied litigator in Silicon Valley, but tell people what drew you to it and how have you become such a fixture in the tech space?

Boris Feldman (01:12):

My entire career, I owe to my wife and my clients. My wife, because when we got married, we were living in Washington DC and she wanted to move here to go to Stanford Law School. But for her, my career probably would've been in Washington going in and out of government and not really getting to know companies very well because the relationships there are often transactional. She got me to move to California and the clients did all the rest. I came here in 1986. It was after the initial wave of semiconductor companies, personal computers in disc drive companies, but it was before the real power of desktop applications. It was before the internet. It was before cell phones. It was before cloud and it was before AI. And I've been lucky, as most lawyers in the valley have been, to work with clients that evolve constantly, and that I think lawyers out here generally are very proud to represent.

(02:24):

So my practice, it's officially securities litigation and counseling on disclosure issues and fiduciary duty issues. But for every Silicon Valley lawyer, it's never limited to one area of practice. It's sort of staying up on what your clients need and those needs evolve all the time and all the learning comes from the clients. So that's been my career.

Anna Gressel (02:51):

I really love that. I couldn't relate more. I think we're going through so many different changes in the tech industry now, but it's so important to remember all of the changes that have happened and the kind of evolution of all of these companies as they continue to chart their course and look at the competitive landscape and look at where they're going. But let's talk a little bit about history. I want to talk with you about how do we learn from history in the tech space and what could it tell us about the moment that we're in, in AI? And specifically, let's talk about the dot-com bust. There are a lot of people saying that we're in

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a bubble moment. We may have a bust soon. Is it, in your opinion, like a redux of that moment? Are we seeing something completely different here, something totally novel?

Boris Feldman (03:33)

Famous historians throughout time have talked about the importance of studying history as a guide to what now is and what will be. With respect to AI, there are lessons we can learn from the dot-com boom and bust. There are similarities and there are great differences. Sort of at the 10,000 foot level, I lived and worked through the dot-com boom and bust. I thought there will never be as exciting a period in the legal industry related to tech as that sort of six year period. But the reality is I think that what we are on the verge of now will be bigger and more interesting. So if there are any young lawyers listening to this, instead of being worried that AI will take away your job, you should be excited to be on the threshold of potentially the most interesting time in the global economy and in legal markets.

(04:37):

And instead of fearing AI, you should make it your superpower. I know we're going to come back to that and how people can view their careers. So the four key drivers, in my opinion, and there are a lot of alternative views, there were four key drivers of the dot-com boom, which was essentially between 1997 and March of 2000. It sounds funny to be able to pick a date, but when people in future decades talk about the AI boom, they're going to go back to the fall of 2023 and the launch of ChatGPT. So during that three to five year period of the dot.com boom, hundreds of IPOs, the value of the NASDAQ stock market went up 800%. And then in March 2000, the wheels started coming off the bus. These are, in my opinion, the four key drivers of the dot-com boom. And on each one, let's talk about whether we think it relates to the AI surge.

(05:39):

One is fundamental technological transformation. Dot-com almost trivializes the transformation. Yes, people start up seeing on New York City buses, dogfood.com or macys.com, but it was about much more than that. It was about taking information and knowledge from a closed loop, either on your computer or within your company and made it global. It was, at the time, people felt really the largest transformation in knowledge since Gutenberg invented the printing press. It's like when I talk to my friends now about how we planned vacations or trips or weddings before the internet and you think, wow, how did I do that? Did I go down to the library and pull some reference books? So the fundamental technological transformation was absolute then as you moved from local siloed communications or at best networked within an organization to having the whole world available.

Anna Gressel (06:47):

That really resonates with me from an AI perspective. And I'll say, I think there's some debate in the market about this right now, like how transformational is AI. I don't mean transformational from like a copyright perspective. There's a different argument on transformative nature of the technology from an IP perspective, but just in terms of how we value and think about the strategic ad from moving to kind of a software enabled environment to an AI enabled environment. For me, that's huge. The potential upside of this, it just can't be underrated. We're talking about transformations to the way that we do medical discovery, to the way that we do industrial materials, the way that we do industrial

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design. There's so much of our economy that could essentially be reformulated around AI if we get AI right. I mean, there's certainly a premise to this, of course, right?

(07:34):

Can we actually get there? But if we can get there, I really understand and sympathize with view that this could be a new industrial revolution for companies, companies and actually countries that can capture that value. So just to throw it back to you, does this feel similar or different, right? We were going to compare and contrast across your dimensions.

Boris Feldman (07:54):

For those of you who are listening in, who've gone deep into Gemini to research things, then you get a sense of, wow, this is a big deal. Or if you've used Claude to code an app that otherwise you would've had to hire someone in Bangalore and pay a team to code, and now Claude did it for you in 15 minutes. So I actually think on the 25th anniversary's launch of ChatGPT, when people say, "How big a technological transformation was this?" I think there's a good chance they will say, "Bigger than the internet." I think there's a chance they may say "bigger than the printing press." I think it's too early to call that yet. So on drivers of the dot-com boom, number one, fundamental technological transformation were there. A second driver of the dot-com boom. Now the next three, two through four are all about greed. So number two was a gold rush mentality among entrepreneurs and people who'd had incredible jobs at the top investment banks, the top technology companies, they all fled because there was a sense, "Oh my gosh, if I'm going to hit this, I need to do it right now and we're in a real hurry." And so you saw a tremendous outflow of talent from the East Coast to the West Coast.

(09:18):

People said, "I don't want to miss out on this." And you had a real sense of urgency among the entrepreneurs. So how does that relate now? I want your perspective on this first.

Anna Gressel (09:30):

It's hard to underestimate how many people are moving into AI, whether it's a push or a pull. I mean, I think some people have been interested in the technology and want to explore applications. I think some people push to adopt and to adapt by their organizations. There's a sense that people have to stay relevant even if they're not moving cities or moving jobs to do AI. Everyone's picking up AI in their own hands now and it is changing kind of the nature of folks. But on this question of moving into the AI space, there's certainly a super dynamic moment from a fundraising perspective. We're seeing a lot of M&A that is AI focused. And so it's not without cause, I think, that folks are moving in as they see the opportunities. Another driver of this is that countries really see AI as a core part of their national strategy.

(10:18):

And so we're moving towards also a world in which there's additional government funding of AI and a government interest in creating AI innovation ecosystem. So outside of the US, outside of Silicon Valley, we're seeing a number of different countries really say, how can we replicate that with AI? We want to have that moment.

Boris Feldman (10:34):

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So you just put a pin in it when we talk about the differences that geopolitical issue is going to be an important one, but I agree with you 100%. Again, if our goal is to say, "How is this like the dot-com boom, and how is it different?" then factor two, gold-rush mentality, is huge here—maybe bigger. And one lesson to take away from the gold rush, I say this as a Californian, although my people were deeply embedded in Poland at the time of the Gold Rush. In the end, those who made money from the Gold Rush sold jeans and shovels. They didn't make it off the gold. So probably later we'll talk about, is the money going to be made by the LLMs in the intelligent agent or is it going to be made by the people with the GPUs and the AI servers? The third factor that was a big driver of the dot-com boom was FOMO among venture capitalists.

(11:31):

I lived through this. I remembered the reason that there might have been 20 dog-food-over-the-internet companies funded was not because the market needed them or could sustain them, it's because everybody on Sandhill Road saw that their neighbor had funded a dogfood.com company and they needed one too because they didn't want to be left out. My sense is that even though I'm not in the funding space, you have greater perceptions of what's going on there. My sense from our colleagues is, right now, nearly all venture money is only going into AI. Certainly if you drive along Highway 101 in Northern California, every billboard is about AI. I think that's not directed at consumers. I think that's in large part directed at the venture world. One difference between now and the dot-com boom in terms of cash pouring in. In addition to the VCs, you now have sovereign wealth funds, which you are very close to.

(12:39):

You have the tech bros in their money and you have family offices. So the amount of money that's flooding into AI potentially can dwarf everything that came in during the dot-com boom. What is your thought on this?

Anna Gressel (12:56):

I think we're seeing a huge fundraising environment around AI right now. I mean, the thing that we would hear, and it doesn't seem to be changing significantly, is this idea that someone could split off of a big tech lab and get funding tomorrow on an idea. I think the question is what idea and how discerning are various VCs or otherwise going to be and where they see the competitive segment. I mean, this gets back to your point before. No one quite knows, or people have hypotheses about who is going to capture the value of AI and why. And it may be different depending on sectors. I mean, we're seeing a huge amount of interest right now in the humanoid robotics space. China came in and said, "Let's not get too crazy with our investment strategy here because this may actually be its own new bubble," which I think is quite interesting, but we're not just looking at one technology.

(13:45):

It's a bunch of different technologies that, again, are kind of all scaffolded on either the current state of improvements in AI or this theory that AI is going to enhance those applications in the future and where that moat is, what is protectable from an investment perspective. That conversation continues to shift.

Boris Feldman (14:05):

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The fourth driver of the dot-com boom was retail investor mania. If you read History of the Great Depression, you read about the shoeshine person who would shine JP Morgan shoes or John D. Rockefeller shoes asking them for stock tips. And during the dot-com boom, we had very much hit that bit; sort of the mailroom clerk in my law firm at the time, every day, would ask me about PE ratios on major tech companies. This hasn't hit yet because there's not a pure play AI investment opportunity yet. But in the coming year, some very real and important AI companies are going to go public. And my guess is, no matter what they are priced at, they will have a huge pop on day one because if you're somebody who doesn't have access to pre-public shares through a secondary market, and you don't have money in a venture fund, but all you're reading every day in every newspaper is about how AI will transform the world, you want to put some of your money into that.

(15:14):

So I think retail investor mania has not had an impact on AI. You do see, if you've looked at some public companies that had big ups and then downs that are not fundamentally or primarily AI companies, but they announced AI related news, they got big surges out of that.

Anna Gressel (15:37):

Well, and Boris, I mean, we're going to date ourselves. This is going to air after we have this conversation, but one of the headline news points is that the legal tech market stocks are down because Claude introduced a legal essentially application within its broader Cloud platform. And so we are seeing these swings, right? We are definitely seeing market effects from the news cycle around everything from data center deals to application releases to competitive model positioning. Of course, that's moving the market. And so folks are paying attention.

Boris Feldman (16:09):

So those were the four drivers of the dot-com boom. Technological transformation, Gold Rush, FOMO, and retail mania. I want to talk with you about three things that I think are different. Number one, when people talk about the bubble, when they talked about the bubble during the dot-com boom, it was really public company prices post IPO, which went to, as I said, the NASDAQ increased by 800%. Those are public companies. Right now, when people talk about the bubble, I think it's largely inflation in the funding level at private companies. And I think many who are more sophisticated about capital markets than I, would disagree, but I think those valuations don't matter. So when you see a company, say a legal tech company, put out an announcement that we've just done funding round today of X dollars and it values us at Y billion dollars, I think you could almost think of that in terms of monopoly money. That Y billion dollar valuation? It doesn't matter.

(17:21):

And the people funding it aren't doing it, in my opinion, on a fundamental valuation analysis, it's FOMO. If that company succeeds and goes public, they want in their annual report, limited partners to say, "We were in on the dogfood.ai IPO." So they're less worried about whether it's a \$2 billion valuation or \$15 billion valuation. They want in on it. So is it likely that on a fundamental analysis basis, the valuation levels of some of the private AI companies don't make sense? Yes, it is likely, but I think it doesn't matter because it doesn't really impact the broader public market. It's sort of a Sandhill road bubble. Your thoughts?

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Anna Gressel (18:12):

Yeah. I mean, I think it's a question of who does it matter too as well. There's obviously the people who are doing the valuations and making their own bets and they have their own view of where the market is going to head. Again, I keep coming back to this question of like, why does everyone care in the long run? And there, I think how any one company does, and legal tech's probably not the best example of this, but take anything from a data center investment to like foundational AI technologies to some startup that's doing drug discovery based on AI. It's really not a question even of where they're going to be now or in the near future. It's this question of whether this is going to unlock something fundamental. So who is going to gain from the next generation of technologies? And we should have a conversation about this, I think, but it's who is going to gain from anything that might happen that is truly novel and unique.

(19:10):

And you're kind of placing your bet around that too. So is there going to be a next generation? Is there going to be kind of a transformational shift, a step change in the technology and you've missed that. And so I think some of the FOMO is being invested. And then some of the FOMO is like, what happens if there's this game changer? What happens when someone finds that there's a new architecture around AI that is going to supercharge the way that we even do science? And have you made that investment? So I think some of the bet placing is a little bit about distributing that probability.

Boris Feldman (19:43):

Totally. Okay. So difference number one, the bubble so far is private, not public. Difference number two, you laid the foundation for massive geopolitical tension. If you wanted to capture AI in three words, they would be West versus China. That is, there are lots of ways of looking at AI, but the word "existential" is overused and often used incorrectly; many countries believe that AI poses an existential issue for them, not in the sense of, "Are the intelligent agents going to take over the Pentagon and launch the missiles?" but rather in the competition between the People's Republic of China and the US and Europe. There are many who believe it's very important that we not lose that competition. So this wasn't a thing in the dot-com boom at all. Whether how many dogfood.com companies thrived didn't really affect major geopolitical issues, and now everything about AI technology and AI regulation is geopolitical.

Anna Gressel (21:05):

I think that can't be understated. There is nothing that I think drives the policy conversation, the national conversation around AI, more than this issue of both... It's a paired issue of both national competitiveness and national defense, meaning no one wants their country to fall behind in terms of the gains from AI, and no one wants their country to fall behind in terms of the ability to defend their borders, to engage in warfare, that is differentially setback because other countries have pulled ahead. And I think that is really shifting the conversation around AI. And now we're seeing a lot of folks try to game out this scenario of who pulls ahead first into AGI or other advanced frontier technologies. Is it the US? Is it China? I think that is an active area of scenario planning and debate for many folks right now.

Boris Feldman (21:58):

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There's also the related regulatory issue of unilateral disarmament. My wife and I had dinner with a very famous founder of a tech company who's very anti-AI and wants to declare a moratorium on it for six months. And we asked him, "Well, if the US, or the US and Europe, declare moratorium on development of AI for six months, what about Russia, North Korea, Iran, China? You think they're going to buy our moratorium?" And the person said, "Doesn't matter. It's the right thing for us to do until we get our arms around it." And I said, "So you probably favored unilateral nuclear disarmament too." And he said, "Yeah, I think that's a good idea too." We're not going there. Our firm is very strong on regulatory issues in Europe and the UK, as well as the US. Every time zealous regulator in one of those countries wants to do something to hold back AI progress, you have to say, "What does that do to the West's ability to compete with countries that won't impose those limitations?" So I think this geopolitical tension, it's a big difference between what's going on now in AI and what went on with dogfood.com.

(23:22):

The third difference, and then I'll get off this topic, involves the necessity of massive investments to launch a new company, and here it's very much split by market. So when LLMs were all that anyone was talking about, because they were so much fun to play with—you could have them write a limerick—but obviously the startup costs and the upgrade costs on LLMs, at least thus far, have been pretty substantial. So initially, people set huge barriers to entry. There are only going to be half a dozen companies that can afford to do this. On the other hand, if you, Anna, wanted to start an AI startup, you could do it without hiring people in Bangalore to code. You could go to Gemini or Claude or other programs in a relatively short order with few people working it, you'd have some really good coding done. So it may be a situation of let a thousand flowers bloom.

(24:32):

It could be that there are many young entrepreneurs who say, "Hey, I've got an idea. This market hasn't really evolved in 10, 20 years in a meaningful way, and I've got this idea and I can get an app out today to test it out." So I think just as when the iPhone changed the world of sort of personal devices and we saw flowering of apps that are now available on the App Store, Google Play, lots of third parties, I think there's a chance that we may be moving into the most creative time in history on the creation of new tools for people and that it won't need to be done with an \$80 million A round. It can be done by three people in a dorm room at Stanford. Your thought?

Anna Gressel (25:25):

There's no doubt about that to my mind. I mean, we're even seeing lawyers saying, "I'm creating my own agent and they're doing all of these things for me." I mean, it's not even just commercialization. It's adoption. It is becoming hugely personal and people are developing the skills, in the context of their current jobs, to potentially be able to pivot and become the next founder of a legal tech company, or I'm just picking on legal tech, but really anything like that. I think what's also interesting that kind of goes to your point is, again, this question of like, how do you use AI to create some sort of differential position in the market? So it's not just that people are coding and they're able to code, but it may also be that there's a lot of interesting information in the world that could also allow companies to essentially seize and move in on existing business models.

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(26:13):

So any business model right now that involves the protection and capitalization on deep wells of proprietary knowledge should be asking themselves how proprietary actually, or is it just the case that we've assembled information that otherwise exists in the world? And if the latter is true, AI can go out and get that information and potentially leverage it. And so there are many different ways that the competitive landscape for companies is shifting because of AI, and that could be from small entrants or it could be from major players that can suddenly essentially reverse engineer some of that information, and then suddenly your moat is no longer there anymore. And so we're seeing a lot of companies try to do that competitive exercise as they think about the way that they are adopting AI, but also the way that their competitors and peers are adopting AI and the industry shifts that may come along with that.

Boris Feldman (27:05):

One of the fun things about using AI tools is that you can ask them how to use them better, which I don't think we've really had. If you're doing the spreadsheet, you couldn't really say to the spreadsheet, "teach me." I'm sure they had help screens, but you couldn't really get advice from it. But you can go into the good AI tools and ask how to use them better, how to get results that provide something particular you need. So it does seem to me, people are probably doing it already, I haven't, that you'll go into a major AI tool and you'll say, "This is what I want to do. How do I build something to do that? " Or, "I currently use this desktop application hooked into our network to get the following information. Is there a way that I could use Notebook LM to do the same thing?" And it will tell you ideas on how to do it.

Anna Gressel (28:02):

Yeah. I mean, the amount of teaching that these tools can do, tutoring, it's really, it's incredible. And we're just going to start seeing generations that have taught themselves to learn. I mean, my dad used to say to me, "The best thing you can do is learn how to learn." It's not the knowledge, it's learning how to acquire the knowledge. And people are going to have a whole new tool set for that, which is really incredible.

Boris, this has been an amazing conversation. I can't wait to pick it up again. I know we have a bunch of different things that you and I want to keep talking about. Thank you for joining us on The AI Drop.

That's today's drop. Thanks for listening. If you'd like to hear more of the AI drop, hit subscribe and join us each week for fresh insights on what's shaping the future of AI.

(28:43):

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